

October 1, 2004

Dear BSAI Crab Buyback Referendum Voter:

I enclose a ballot for your use in the BSAI crab buyback's second referendum.

This referendum is about the bids we've now accepted under the buyback's second invitation to bid which we issued on August 6, 2004.

The enclosed ballot specifies a BSAI crab license for which our records indicate you're the holder of record. That license qualifies you to one vote in the second referendum.

The bidding period under this buyback's second invitation to bid closed on September 24, 2004. We've finished scoring and accepting bids under this second round of bidding, but we won't release the accepted bidders' names unless and until this second referendum succeeds.

This second referendum determines whether voters approve or disapprove the post-buyback landing fees necessary to repay a \$97.4 million buyback loan over the next 30 years.

We urge you to consider this matter carefully and be sure to exercise your right to vote in the referendum.

For your vote to count, you must complete the ballot and return it to us soon enough for us to have received it here not later than 5:00 P.M., Eastern Standard Time, on November 15, 2004.

We won't count ballots we first receive after November 15, 2004.

You may return the completed ballot to us by U.S. mail, overnight delivery, or any other method (except fax) you choose.

Your completed ballot must bear the original signature of your authorized signer. We won't count a ballot which isn't signed. We won't count a copy of a signed ballot.

Please be sure to mark your ballot either for or against the fee, but not both for and against the fee. We can't count a ballot which isn't marked either for or against the fee, and we can't count one which is marked both for and against the fee.

If you have more than one BSAI crab license qualifying you to vote, we'll separately mail you one additional ballot for each additional license.

All votes have equal weight.

If at least two-thirds of the responsive ballots we receive vote for the industry fee system, the referendum will succeed, the fees will be approved, and we'll finish the buyback.

If, however, more than one-third of the responsive ballots we receive vote against the industry fee system, the referendum will fail, the fees won't be approved, we won't finish the buyback, and all bidders will automatically be released from their bid offers.

For further details about the referendum and related buyback matters, please see the letter we sent you on September 10, 2004. The September 10, 2004, letter's also available, under the title "Second Referendum Voting Notice Letter", on our web site at:

http://www.nmfs.noaa.gov/ocs/financial_services/buyback.htm

The remainder of this letter summarizes the results of the BSAI crab buyback bids which we've accepted under the buyback's second invitation to bid. These results should help you determine how you want to vote in this second referendum.

(1) WHAT WAS THE TOTAL AMOUNT OF BIDS WE RECEIVED?

We received bids totaling \$226 million.

(2) WHAT WAS THE TOTAL AMOUNT OF BIDS WE ACCEPTED?

We accepted bids totaling \$97.4 million.

Accepting the next lowest scoring bid would have caused the total amount of accepted bids to have exceeded the buyback's maximum cost of \$100 million.

(3) ARE CRAB CAUGHT UNDER CDQ QUOTAS EXCLUDED FROM THE DATA IN THIS LETTER?

Yes.

None of the data included in this letter include any crab caught under CDQ quotas.

(4) IF THE REFERENDUM SUCCEEDS, HOW DOES THE CRAB FISHING HISTORIES WHICH THE ACCEPTED BUYBACK BIDDERS WILL RELINQUISH POTENTIALLY INCREASE THE AVERAGE CRAB QS ALLOCATIONS WHICH WILL BECOME AVAILABLE, UNDER THE PROPOSED CRAB IFQ PROGRAM, TO THE FEWER CRAB LICENSE HOLDERS WHO WILL REMAIN IN THE POST-BUYBACK FISHERY?

At the public's request, the NPFMC staff published guidance¹ for crab license holders' use in estimating their potential crab QS allocations under the proposed crab IFQ program. This guidance appears on the NPFMC's web site at:

http://www.fakr.noaa.gov/npfmc/current_issues/crab/prefharvestdemon.pdf

License holders appear to widely use the NPFMC staff guidance for estimating their potential crab QS allocations. Therefore, this may be the context in which many referendum voters prefer to consider the capacity reduction results of the buyback bids we've accepted. Consequently we used the NPFMC guidance to estimate:

● *The percentages of crab QS allocations which accepted buyback bidders won't receive if the referendum succeeds and which, consequently, will be available for redistribution to fewer post-buyback crab license holders, and*

● *Accordingly, the average percentages by which crab QS allocations will increase for the fewer post-buyback crab license holders.*

The results of these calculations appear in Table No. 1.

These estimated results are subject to all the NPFMC staff caveats to its guidance upon which we've based these results. The results are also subject to the additional caveat that we correctly used the guidance to estimate the potential crab QS allocations which the accepted buyback bidders' won't receive if

¹The NPFMC guidance (including its "Table 1") is entitled "DENOMINATORS FOR CALCULATING ALLOCATIONS".

the referendum succeeds.

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TABLE NO. 1 QS POUNDAGE ALLOCATIONS UNDER PROPOSED CRAB IFQ PROGRAM		
IFQ FISHERIES	ESTIMATED % THAT <u>ACCEPTED</u> <u>BIDDERS WON'T</u> <u>RECEIVE IF</u> <u>REFERENDUM</u> <u>SUCCEEDS</u>	ACCORDINGLY, ESTIMATED AVERAGE % OF INCREASES THAT <u>FEWER POST-BUYBACK</u> <u>LICENSE HOLDERS WILL</u> <u>RECEIVE IF REFERENDUM</u> <u>SUCCEEDS</u>
Bristol Bay Red	9.94%	11.04%
Bering Sea Opilio	11.24%	12.66%
Bering Sea Bairdi	9.76%	10.82%
Aleutian Island Red	5.34%	5.64%
Aleutian Island Brown ²	8.24%	8.98%
Pribilof Red and Blue	5.31%	5.61%
St. Matthew Blue	12.29%	14.01%

(5) DO WE BELIEVE WE CORRECTLY USED THE NPFMC STAFF GUIDANCE TO PREPARE TABLE NO. 1?

Yes, we believe all the data and all the calculations are correct.

We reconciled each accepted bidder's crab catch data against the same bidder's crab catch data which the NPFMC independently derived and used in its staff guidance for estimating potential crab QS allocations. There are no unreconciled differences between these two sets of independently derived data. We cleared our calculations with the NPFMC's staff.

(6) APART FROM THE NPFMC STAFF GUIDANCE FOR ESTIMATING POTENTIAL CRAB QS ALLOCATIONS, WHAT ADDITIONAL ACCEPTED BUYBACK BIDDER DATA CAN WE PROVIDE WHICH MAY BE USEFUL TO REFERENDUM VOTERS?

The rest of this letter presents the additional data:

²This fishery category combines two fishery categories (i.e, Adak Browns and Dutch Browns) listed separately in "Table 1" to the NPFMC staff guidance.

(a) ARE THE FOLLOWING TABLES BASED ON DIFFERENT DATA THAN TABLE NO. 1?

Yes, to the extent that two different time periods are involved.

We based Table No. 1 on the accepted bidders' crab catch history data during the years which the NPFMC is considering as the base years for potential crab QS allocations.

We based the following tables, however, on the accepted bidders' crab catch history data during the years the buyback statute requires us to use for scoring bids, calculating buyback loan subamounts, and calculating the buyback loan repayment fees.

Although they overlap, the QS allocation years and the bid scoring years are different.

(b) DO THE ACCEPTED BIDDERS LOSE THEIR ENTIRE CRAB CATCH HISTORIES?

Yes, we revoke the entire crab catch histories of the vessels which gave rise to the accepted bidders' crab licenses.

Table No. 1, however, includes only the portion of the revoked crab catch histories which impact prospective crab QS allocations. Similarly, Tables No. 2 and 5 include only the portion of the revoked crab catch histories which impact bid scoring, buyback loan subamounts, and buyback loan repayment fees.

(c) PROSPECTIVELY, WHAT PORTION OF A \$97.4 MILLION BUYBACK LOAN WOULD EACH OF THE SIX AREA/SPECIES ENDORSEMENT FISHERIES SUBJECT TO FEES REPAY, AND WHAT PERCENTAGE OF THE PROJECTED POST-BUYBACK LANDING VALUE IN EACH FISHERY WOULD THIS BE?

TABLE NO. 2 PROSPECTIVE BUYBACK LOAN DATA		
AREA/SPECIES ENDORSEMENT FISHERIES	LOAN PORTIONS (IN MILLIONS OF \$)	LOAN REPAYMENT FEE RATES
Bristol Bay Red	\$17.1	1.9%
BS Opilio and Bairdi	\$66.4	5.0%
Aleutian Island Red	\$0.2	5.0%

Aleutian Island Brown	\$6.4	2.6%
Pribilof Reds and Blue	\$1.6	5.0%
St. Matthew Blue	\$5.7	5.0%
Total	\$97.4	

(d) ON WHAT DO WE BASE THE FEE RATES IN TABLE NO. 2, AND WILL THESE RATES CHANGE IN THE FUTURE?

The fee rates are always a percentage of ex-vessel value.

For table No. 2, we based each prospective fee rate on the calendar year 2003 ex-vessel value of each crab area/species endorsement fishery. No one knows, of course, what these fisheries' ex-vessel values will be during 2005, when the fees are scheduled to begin, and thereafter. Accordingly, the prospective fee rates may vary accordingly in the future.

Some crab area/species endorsement fisheries weren't open for directed fishing during calendar year 2003. For these fisheries, Table No. 2 simply defaults to the maximum fee rate (5%). When these fisheries reopen for directed fishing and fees at the maximum rate have paid the loan portions for those fisheries current (based on a 30-year amortization), their fee rates will then decrease to whatever lower rates we then estimate will be sufficient to keep repayment of these fisheries' loan portions current.

The fee rate for the Bering Sea Opilio and bairdi area/species endorsement fishery is also at the maximum 5% rate because only the Opilio portion of this single area/species endorsement fishery was open for directed fishing during calendar year 2003. Again, when the bairdi portion of the single Opilio/bairdi fishery reopens for directed fishing and the maximum-rate fee collected on both bairdi and Opilio landings have paid this fishery's loan portion current, the opilio/bairdi fee rate will then decrease to whatever lower rate we then estimate will be sufficient to keep repayment of this fishery's loan portion current.

No one can now know for sure what crab area/species endorsement fisheries may be open for directed fishing in future years, what their total allowable catches may then be, or what their ex-vessel values may then be. Nevertheless, no fishery's loan

repayment fee rate will ever remain higher than the future fee rate necessary to amortize the loan portion then remaining unpaid for each fishery, and no fishery's fee rate will ever exceed 5% regardless of any other factor.

(e) WILL THE FEE RATES DECREASE OVER THE 30-YEAR TERM OF THE BUYBACK LOAN?

The maximum fee rate in any area/species endorsement fishery can never exceed 5%, but will never be higher than we project necessary to, over 30 years, repay the buyback loan portion allocated to each area/species endorsement fishery.

The 30-year buyback loan has a fixed principal amount at a fixed interest rate, and ex-vessel crab prices will presumably inflate over the next 30 years.

If ex-vessel prices inflate during the next 30 years, the buyback loan-repayment fee rates will become a lower percentage of ex-vessel crab values.

Moreover, if and when some future total allowable crab catches presumably increase to levels more representative of some of the historical ones, the fees rates should also decrease to a lower percentage of an area/species endorsement fishery's greater total ex-vessel value because a lower percentage rate should then be sufficient to amortize the fishery's buyback loan portion.

Under these circumstances, it seems likely that the fees may progressively decrease over the buyback loan's 30-year term.

The longer term view may, in this context, be the most appropriate one.

(f) HOW MANY NON-INTERIM CRAB LICENSES WILL BE RELINQUISHED IF THE REFERENDUM APPROVES THE FEES?

The accepted bidders will relinquish 25 non-interim crab licenses.

(g) What percentage of all non-interim crab licenses are the relinquished ones?

TABLE NO. 3

NUMBER OF NON-INTERIM CRAB LICENSES		
TOTAL EXISTING	RELINQUISHED UNDER THE BUYBACK	RELINQUISHED AS % OF TOTAL
290	25	8.6%

(h) WHAT AREA/SPECIES ENDORSEMENTS DO THE 25 RELINQUISHED CRAB LICENSES INVOLVE, AND WHAT PERCENTAGES ARE THEY OF THE TOTAL AREA/SPECIES ENDORSEMENTS EXISTING FOR ALL NON-INTERIM CRAB LICENSES?

TABLE NO. 4 RELINQUISHED AREA/SPECIES ENDORSEMENTS			
AREA/SPECIES ENDORSEMENT FISHERIES	AREA/SPECIES ENDORSEMENTS FOR ALL NON-INTERIM CRAB LICENSES		
	TOTAL EXISTING	RELINQUISHED UNDER THE BUYBACK	RELINQUISHED AS % OF TOTAL
Bristol Bay Red	274	24	8.8%
BS Opilio and Bairdi	278	25	9.0%
Aleutian Island Red	29	1	3.5%
Aleutian Island Brown	28	3	10.7%
Pribilof Reds and Blue	119	13	10.9%
St. Matthew Blue	179	22	12.3%
TOTAL	907	88	9.7%

(i) UNDER THE 25 ACCEPTED BIDS, HOW MANY CRAB FISHING VESSELS WILL PERMANENTLY LOSE THEIR WORLDWIDE FISHING PRIVILEGES IF THE REFERENDUM APPROVES THE FEES?

25 crab fishing vessels will permanently lose their worldwide fishing privileges.

(j) HOW MUCH ACTUAL CRAB FISHING HISTORY WILL THE 25 ACCEPTED BIDDERS RELINQUISH IF THE REFERENDUM APPROVES THE FEES?

They will relinquish the entire BSAI crab fishing history of the vessels which gave rise to the bidders' 25 non-interim BSAI

crab licenses.

The table below, however, states the actual ex-vessel value and pounds of the crab fishing history which the accepted bidders will relinquish in each crab area/species endorsement fishery, but the statement is limited to only the five years in each fishery which we used to score the bids.

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TABLE NO. 5 ACTUAL CRAB FISHING HISTORIES <i>DURING 5 BID-SCORING YEARS</i> WHICH ACCEPTED BIDDERS WILL RELINQUISH			
AREA/SPECIES ENDORSEMENT FISHERIES	5 BID SCORING YEARS	VALUES (IN MILLIONS OF \$)	POUNDS (IN MILLIONS)
Bristol Bay Red	1993 1996-1999	\$18.9	4.8
BS Opilio and Bairdi	1995-1999	\$73.4	73.4
Aleutian Island Red	1994-1996 1998-1999	Positive ³	Positive
Aleutian Island Brown	1995-1999	Positive	Positive
Pribilof Red and Blue	1994-1998	\$1.7	0.5
St. Matthew Blue	1994-1998	\$6.3	2.2

(k) WHAT'S THE PRACTICAL EFFECT OF COMPLETING THE BUYBACK?

Completing the buyback will result in both greater ex-vessel crab revenues and greater crab QS allocations for fewer post-buyback crab license holders.

This is true because, if the referendum succeeds, the 25 accepted bidders will relinquish their crab fishing histories, their crab licenses, and the worldwide fishing privileges of

³The word "positive" in Table No. 5's last two columns for the Aleutian Island Red and Aleutian Island Brown rows means that the accepted bidders will relinquish known amounts of crab catch history for these two area/species endorsement fisheries, but the crab data confidentiality requirements prevent us from stating either the relinquished history's value or poundage. The confidentiality requirement stems from the fact that each of these two fisheries involves less than four accepted bidders.

their crab vessels. These relinquished crab fishing histories will, under the proposed IFQ program, be available for reallocation in the form of greater QS to the fewer post-buyback license holders. This will potentially increase the QS allocations available to the fewer post-buyback license holders by the percentages estimated in Table No. 1.

Consequently, the buyback's benefit to fewer post-buyback license holders will be both:

- *The greater ex-vessel revenues they realize from the greater crab QS allocations they receive; and*

- *The greater asset values of the greater QS allocations themselves.*

(1) WHAT'S THE MAIN CONSIDERATION FOR REFERENDUM VOTERS?

The main consideration is whether the greater QS allocations and the greater crab revenues which the fewer post-buyback license holders will experience justify the fees required to repay the buyback loan.

Note, however, that you'll only pay the fees as long as you continue in the BSAI crab fisheries. You'll receive the extra QS allocation now, but the buyback loan is a 30-year loan, and you'll only pay the loan fees for as long as you continue in the crab fisheries.

As previous buyback information letters have noted, the buyback loan isn't a conventional loan. No one is personally obligated to repay this loan in any way other than the fee rate which the first ex-vessel buyers of landed BSAI crab will apply to all post-buyback BSAI crab landings until the loan is repaid over the next 30 years.

Prospective buyback benefits to you which appear greater than the prospective buyback cost to you may indicate that you should vote for the buyback loan repayment fees and, thus, for enabling us to complete the buyback.

If, however, the cost to you appears greater than the benefit to you, this may indicate that you should vote against the buyback loan repayment fee and, thus, for preventing us from completing the buyback.

Voting for or against the fees is a judgment which only you can

make. We urge you to carefully exercise your best judgment.

(m) IF THE REFERENDUM IS SUCCESSFUL, WILL THE 25 ACCEPTED BIDDERS BE ABLE TO PARTICIPATE IN THE OPILIO CRAB SEASON WHICH BEGINS ON JANUARY 15, 2005?

No, not with the 25 crab licenses and crab fishing vessels involved in the buyback.

We believe a successful referendum means that there will be 25 fewer license holders and fishing vessels participating in the Opilio crab season opening on January 15, 2005.

The referendum's results will be known after 5:00 P.M. on November 15, 2004. If the results are successful, we plan to publish a reduction payment tender notice in the Federal Register not later than November 22, 2004. 30 days later, on December 22, 2004, we'll tender reduction payments to the 25 accepted bidders. This is the point at which all buyback relinquishments are effective and accepted bidders must cease fishing with the licenses and vessels involved in their reduction contracts.

All 25 accepted bidders should, consequently, permanently cease crab fishing with all 25 crab licenses and crab fishing vessels before the end of 2004.

(n) WHEN WILL THE BSAI CRAB FISHERIES BEGIN PAYING THE BUYBACK LOAN REPAYMENT FEE?

Not until we propose and adopt a fee regulation and, subsequently, notify the first ex-vessel buyers of BSAI crab landed thereafter to start collecting the fees by withholding them from ex-vessel crab trip proceeds.

We don't expect that we'll be able to do this until about the second quarter of 2005.

(o) WILL THE BUYBACK LOAN REPAYMENT FEES BE TAX DEDUCTIBLE?

The crab buyback loan repayment fees may be deductible for Federal income tax purposes because fees for the same purpose in a similar buyback we recently completed were deductible.

Nevertheless, whether the crab buyback loan repayment fees will be deductible is solely an Internal Revenue Service determination, and you should consult with your tax adviser accordingly.

This concludes the buyback bidding summary.

Please do not hesitate to contact us, at the following numbers and addresses, if you need further referendum or buyback information:

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PERSON	NUMBERS/ADDRESS	
	TELEPHONE (301) 713-2390	E-MAIL ADDRESS
Mike Sturtevant	Extension 212	michael.a.sturtevant@noaa.gov
Shawn Barry	Extension 186	shawn.barry@noaa.gov
Mike Grable	Extension 185	michael.grable@noaa.gov

Again, we urge each qualified voter to exercise his or her referendum voting privilege and return a completed ballot to us soon enough for it to count in the referendum.

Remember the deadline for us to receive your completed ballot here is 5:00 P.M., Eastern Standard Time, on November 15, 2004.

Shortly after November 15, 2004, we'll advise all qualified voters of the referendum's voting results.

If the referendum is successful, we'll then also notify the 25 accepted bidders that we had accepted their bids. Then we'll publish a 30-day reduction payment tender notice in the Federal Register, after which we'll tender reduction payments to the accepted bidders.

Sincerely,

Michael L. Grable, Chief
Financial Services Division

ENCLOSURE (one ballot for one crab license)